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TAGS: [ECON](#) [PREL](#) [PGOV](#) [AR](#)  
SUBJECT: ARGENTINA: GOA INTERNAL SQUABBLE OVER INFLATION  
REFLECTS STRUGGLE FOR ECONOMIC POLICY PRIMACY

REF: A. BUENOS AIRES 269  
[1](#)B. BUENOS AIRES 159  
[1](#)C. BUENOS AIRES 117  
[1](#)D. 07 BUENOS AIRES 2371  
[1](#)E. 07 BUENOS AIRES 2271  
[1](#)F. 07 BUENOS AIRES 2206

Classified By: Amb E.A. Wayne for Reasons 1.4 (b and d).

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Summary  
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[1](#)1. (SBU) The Argentine President Cristina Fernandez de Kirchner (CFK) chose not to address public concern over high levels of inflation or the raging debate over the accuracy and reliability of GoA inflation measures in her March 1st State of the Nation Speech. Just days before CFK's speech, Chief of Cabinet Alberto Fernandez announced that the GoA's release of a new CPI inflation measure will be delayed four to six weeks. Media attributes the delay to a conflict between Economy Minister Lousteau and Interior Commerce Secretary Guillermo Moreno over just what the new CPI index

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will measure and whether its introduction will restore lost GoA credibility. Lousteau reportedly believes that any new index must reflect levels of inflation experienced by middle-class consumers and be credible for international capital markets and international financial institutions. Moreno apparently favors a narrow CPI measure that targets a restricted basket of (often price-controlled) consumption items that mirror the consumption basket of lower middle-class consumers. Moreno did win public support from CFK in her March 1 speech for his efforts to control prices however. Moreno is set to deploy a 30-strong cadre of inspectors to review the cost structure of private companies to determine whether their price increases are "justified." Private sector companies call this a vehicle for GoA price control intimidation. The intra-government debate over prices and inflation is a proxy for a larger internal policy struggle on the market orientation of GOA economic policies.  
End Summary.

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CFK at Parliament: No Mention of Inflation

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¶2. (SBU) In a March 1 address to the opening of the 126th parliamentary session, CFK focused the first 2/3rds of her 73 minute speech on economic themes, including Argentina's record of post-crisis economic growth; the need to expand domestic financing for investment in new capacity by medium- and small-scale businesses; energy challenges faced by Argentina and its Southern Cone neighbors; and a pledge to reduce poverty to single-digit levels by the 2010 bicentennial (see Ref A for detailed speech coverage). She used this opportunity to specifically support Interior Commerce Secretary Moreno's efforts to control prices and monitor costs of major producers of consumer goods, saying that, just as transparency in government expenditures is a fundamental citizen's right, so too is transparency in private sector costs and prices. "It is good for the sake of market transparency that consumers understand the components of distinct value chains, so they can know the rationality of prices and what they are paying for. Transparency is good for the market, for the public and for the private. This is what, at a minimum, a democratic society must demand and this method (referring to Moreno's announced push to monitor private sector company costs) will permit us to do....We want to work alongside owners and producers on how to 'conform' prices in order to rationally articulate an economic process that is giving its results and that all have to sustain and support.

¶3. (SBU) However, the President chose neither to mention current high levels of domestic inflation nor the raging public debates over the accuracy and reliability data from the GoA statistics agency ("INDEC"). Opposition leaders sharply criticized this omission, with former presidential candidate Elisa Carrio arguing that CFK's presentation demonstrated "a strong dissociation with reality" that ignored Argentina's present inflationary challenge. A number of media commentators also railed on this theme.

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CPI Index Release Delayed: Lousteau/Moreno Feud  
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¶4. (C) The GoA had promised release of a new CPI measure in late 2007 as a vehicle to "rationalize" consumer inflation measures, allow INDEC to recoup lost credibility, and provide a path for the GoA to walk back gracefully from a year's worth of heavy-handed interventions in INDEC (Refs B,C, E). Initial GoA preparations for the new CPI index's release included a highly publicized visit of INDEC officials to Washington in November 2007 (Ref C) to consult with Bureau of Labor Statistics officials.

¶5. (SBU) Ongoing delays in the release of the new index and independent analyses indicating the new index's measure of domestic February 2008 inflation would have been 0.4%, even lower than the current discredited CPI measure's projected 0.9%, have been front-page news in Argentina's leading dailies over the past week. Local media has focused on the related conflict between Economy Minister Martin Lousteau and Moreno, his supposed subordinate in the Economy Ministry. Moreno is known as the price control "czar" and widely believed to be the architect of GoA intervention into INDEC. Lousteau is said to believe that any new index must be credible from day one and more accurately reflect Argentina's inflation reality to domestic consumers, to international capital markets, and to international financial institutions. He is also said to favor returning to a (pre-GoA intervention) 2004-era CPI measure which mirrors the consumption basket of an industrial worker's four-person household.

¶6. (SBU) Moreno, on the other hand, apparently seeks a much narrower CPI measure that eliminates middle class consumption items (including pre-paid medical insurance fees, private school fees, tourism costs, auto maintenance, etc.), eliminates seasonal variations in prices (using what analysts

call a technically suspect method to eliminate outliers), and focuses on a much restricted basket of consumption items that are broadly controlled by the GoA and that mirror the purchase of lower middle class consumers. The escalating battle led on February 26 to rumors of the possible resignation of Minister Lousteau. Embassy contacts and the media reported that Chief of Cabinet Minister Alberto Fernandez summoned Lousteau and Moreno to calm the waters and subsequently personally announced that the release of the new CPI index would be delayed by 4-6 weeks. CFK herself fed the rumor mill when, during a February 27 ceremony attended by Lousteau and Moreno to announce "voluntary" price controls by providers of back-to-school supplies for children, she made a Freudian slip and mistakenly asked "Minister" Moreno to provide details of the agreement to the media.

17. (C) In a February 26 meeting with EconCouns, Moreno noted that INDEC currently measures over 600 consumer basket items in its CPI index. He confirmed that this number will be reduced to some 400 in the new index, with "massive consumption" items purchased by the lower middle class comprising more than 70% of the total. Moreno rejected independent analyst calculations of "true" Argentine inflation in the 20% range, saying that independent analysts were not at all independent but instead had skewed their inflation calculations on the upside to serve the interests of their commercial bank sponsors. Moreno's reasoning is that commercial banks hold substantial portfolios of inflation-linked GoA debt and want to see higher reported inflation rates in order to improve their return on investment. Interestingly, former Economy Minister Lavagna continues to peg inflation at around 20% even though he recently agreed to join former President Nestor Kirchner in revamping the Peronist Party.

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Expansion of Informal Price Controls  
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18. (SBU) According to media and Economy Ministry contacts, Internal Commerce Secretary Moreno has formed a 30-strong cadre of inspectors to review the cost structure of private companies that produce and market goods for public

consumption. Armed with a 1970s-era law on the defense of consumer rights (Law 28.808, entitled "Commercial Fidelity"), Moreno's expressed goal is to determine whether price increases are "justified." Private sector players call this a vehicle for GoA de facto price control intimidation and note that the law empowers the National Commission for the Defense of Competition (CNDC) to carry out such inspections, not the Secretariat of Internal Commerce. (In late 2007, Moreno had revived another 1970s-era law, the Law of Supply, in order to "encourage" hydrocarbon refiners, including the US' Exxon, to import diesel fuel at a loss to ensure that retail service stations remained adequately supplied.)

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Comment: Inflation Debate in Perspective  
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19. (C) Though the opposition and media have solid grounds for criticizing CFK's omission of inflation from her address to Parliament, it is, in a sense, a positive development: until now, the President had regularly and publicly defended the integrity of INDEC statistics. By now failing to defend the indefensible, the President's omission could be a pragmatic step in the right direction. But it depends on the outcome of the current GOA internal debate.

110. (C) In its origins, many argue this policy of price controls and playing with statistics had both political and economic motivations. On the one hand, former President Nestor Kirchner had a strong interest in ensuring victory in the October 2007 elections and local observers have argued that controlling inflationary expectations (and linked union wage hike demands) were important parts of pre-election stage

stetting. There is also broad agreement among independent analysts that the GoA's original alleged intervention in inflation calculations was strongly motivated by a desire to reduce the overall cost of funding Argentina's substantial sovereign debt. Roughly US\$ 56 billion in GoA sovereign obligations are inflation-linked securities and private estimates calculate that the persistent underestimation of inflation in 2007 allowed the GoA to save hundreds of millions of dollars. As a result of international capital market perceptions of GoA intervention in inflation measures, GoA inflation-linked bonds lost roughly 30% of their value in 2007. In the past week, as media coverage of the Lousteau/Moreno feud have escalated, these bonds lost an additional 2-4% of their value. For many in the financial community here, the tortuous path to the introduction of a new CPI index speaks to the GoA's search for an exit strategy, a means to step back gracefully from heavy-handed 2007 intervention in INDEC in a way that will not put the GoA in jeopardy of legal challenges by holders of inflation-linked debt obligations.

¶11. (C) The Lousteau/Moreno battle reflects a broader internal debate over the need for -- and the efficacy of -- pervasive GoA intervention in domestic markets. Moreno advocates expanded control of consumer prices and continued GoA manipulation of statistics, while Lousteau is more attuned to the need to rebuild the GoA's domestic and international credibility. But it is important to put the Moreno/Lousteau feud in context: Miguel Peirano, Lousteau's predecessor as Economy Minister under President Nestor Kirchner, declined to stand as a candidate to be CFK's Economy Minister because he was reported to have felt it impossible to serve as an effective Economy Minister so long as control over GoA market interventions and inflation calculations were ceded to an independent Commerce Secretary (Ref F).

¶12. (C) The GOA may choose to have it both ways, with an articulate but hobbled Economy Minister Lousteau presenting the GoA's interventionist economic policies in their best light to the international financial and investor community, while Internal Commerce Secretary Moreno continues to serve as the CFK administration's in-house enforcer, presenting to CFK's lower middle class base a GoA that is forcefully controlling inflation by standing up to profit-hungry business interests. Given CFK's recent public support of Moreno, including during her speech opening Parliament March 1, many see this as the most likely outcome, with twin Economy Ministers ) Moreno and Lousteau ) jockeying for

primacy for the foreseeable future. Other pundits claim there will be a troika of Economy Ministers, with ex-President and first spouse Nestor Kirchner continuing to pull economic policy levers behind the scenes. The most important signal in the near term will be what new inflation measure emerges for use by the Argentine national statistics agency. That will say much about where the GoA is headed.  
WAYNE